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FOREIGN GOLD and EXCHANGE RESERVES

CURRENT TRENDS

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INTERNATIONAL FINANCIAL CHANGES

by Carolee Santmyer

Total free world reserves were \$83 billion by the close of fiscal 1970, \$6.7 billion (8.7 percent) higher than reserves a year earlier. However, the liquidity ratio (reserves as a percentage of imports) declined for the third consecutive year, to 28.4 percent (table 1). The ratio was slightly under 30 percent a year earlier. World export values during fiscal 1970 climbed 14.7 percent to nearly \$260.8 billion, and imports rose 14 percent to \$272.4 billion (table 2).^{1/} Average world prices for primary products in fiscal 1970 were 3 to 4 percent higher than a year earlier.

International Reserves. International reserves of the free world nations include (1) their reserve position in the International Monetary Fund (IMF), (2) foreign exchange holdings, (3) gold, and (4) their IMF special drawing rights (SDR's). Total free world reserve position with the IMF rose to over \$7.1 billion by the end of fiscal 1970, up by more than \$0.8 billion from a year earlier. Members' foreign exchange holdings during the same period rose by almost \$2.5 billion to roughly \$33.7 billion. World monetary gold holdings (by international institutions and countries) increased by \$205 million to nearly \$41.2 billion. Holdings by international institutions at \$2.2 billion accounted for \$70 million of the increase. Country holdings increased \$135 million to \$39 billion. Country holdings of SDR's amounted to slightly under \$3.2 billion (table 3).

In fiscal 1970, U.S. gold holdings rose by over \$0.7 billion to slightly under \$11.9 billion, compared with a \$0.5 billion increase the year before. This was the largest gain made by a free world country. Gold holdings by the United Kingdom and Japan climbed by \$175 million and \$109 million. On the other hand, Germany's holdings dropped by \$483 million and South Africa's gold declined by \$322 million.

SDR's, the newest form of international liquidity, have generated considerable interest in their use and movement. The responsibility for supervision rests with the IMF. So far, participants have realized no problems in using SDR's to acquire convertible currencies and in payment of charges and repurchases to the Fund's General Account. In turn, the General Account has used SDR's for certain payments to participants. Table 3 lists 65 of the 105 countries that undertook all obligations of a participant in the Special Drawing Account. These countries account for 95.4 percent of the total value of SDR's issued January 1, 1970.

^{1/} Theoretically, the value of world exports should equal that of world imports. However, this does not occur due to differences in valuation and reporting methods--for example, f.o.b. for exports vs. c.i.f. for imports. Also trade imbalances between communist countries and members of the International Monetary Fund (IMF) give the impression that a world trade deficit exists.

In the first 6 months of existence of SDR's, the developed nations gained \$37.7 million of these instruments. This represents a gain of only 1.5 percent. The less developed countries lost \$282.1 million, 33 percent. The difference between the gain for the developed nations and the loss for the LDC's is accounted for by an inflow of SDR's into the International Monetary Fund.

The largest individual increase in holdings was \$90.3 million for the United States. The largest loss was \$125.2 million registered by the United Kingdom. Belgium increased its holdings by 32.4 percent, the greatest percentage relative to original holdings. Of the countries listed, 11 have used all, or virtually all, of their SDR's. Sixteen countries have used none, or only a tiny fraction, of theirs.

Reserves, of all types, held by developed countries totaled over \$65.5 billion on June 30, 1970--6.5 percent or \$4.0 billion higher than a year earlier. Of this increase, \$2.6 billion is accounted for by SDR's. Developed nations held roughly 79 percent of the world's total reserves. Reserves of less developed countries on the same date amounted to \$17.5 billion, up 18 percent (\$2.7 billion) from the previous year. SDR's represented \$571 million of this increase.

Among the developed countries about 41 percent of free world reserves were held jointly by the European Economic Community (EEC) and the European Free Trade Association (EFTA). The EEC held 28 percent (\$23.2 billion) and EFTA 13 percent (\$11.2 billion). In the previous year the EEC accounted for 31 percent and EFTA 13 percent. Of the developed nations, only Germany, Italy, and South Africa had individual reserve declines greater than \$200 million. No developed nation had losses amounting to more than 14 percent of its June 30, 1969, reserves. Of the less developed countries, Israel, Iraq, the UAR (Egypt), and Thailand realized individual reserve decreases of over \$400 million. With two exceptions (Egypt and Burma) none of the less developed countries had declines greater than 20 percent of their previous year's reserves. Egypt and Burma had reserve losses of 35 percent and 25 percent, respectively.

World Trade. The trade deficit of the developed world increased to more than \$11.3 billion in fiscal 1970 from roughly \$10.5 billion a year earlier. In fiscal 1970, the Community supplied about 32 percent (over \$82.2 billion) of world exports and received 30 percent (over \$82.3 billion) of world imports. In comparison, EFTA accounted for nearly 15 percent (almost \$38.8 billion) of world exports and purchased roughly 17 percent (over \$45.3 billion) of the world's imports.

Less developed countries narrowed their trade deficit from \$950 million in fiscal 1969 to \$200 million. Less developed countries accounted for roughly 18 percent of world trade in fiscal 1970.

World Market Prices. The World Bank's commodity price indexes show that prices of primary products exported by developed countries in fiscal 1970 were approximately 4 points higher than the index of 106 a year earlier, and 10 points above the 1963 base. Prices of products sold by less developed countries improved between 3 and 4 percent. Despite the rise in prices, the 14.7 percent increase in total free world exports resulted mainly from a growth in volume. Exports from developed countries totaled over \$212.2 billion during

Table 1.--International gold and foreign exchange reserves of the free world 1/

Country and area	Reserves			Change in reserves, June 1969-June 1970	Ratio gold to reserves June 30, 1970 2/	Ratio of reserves to imports 3/
	June 30, 1968	June 30, 1969	June 30, 1970			
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent
ALL COUNTRIES, Total 4/	73,185	76,450	83,115	6,665	8.7	59.4
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES 4/...	59,806	61,628	65,632	4,004	6.5	68.2
United States	14,063	16,058	16,328	270	1.7	93.1
Belgium	2,532	2,211	2,598	387	17.5	74.0
France	5,517	3,611	4,447	836	23.1	83.4
Germany, Federal Rep. of:	8,883	10,158	8,816	-1,342	-13.2	46.3
Italy	5,382	5,149	4,680	-469	-9.1	81.3
Netherlands	2,477	2,366	2,683	317	13.4	88.5
European Economic Com- munity (excluding Luxembourg)	24,791	23,495	23,224	-271	-1.2	71.1
Austria	1,495	1,413	1,540	127	9.0	59.9
Denmark	468	372	342	-30	-8.0	34.2
Norway	693	657	664	7	1.1	22.0
Portugal	1,242	1,362	1,371	9	.7	63.0
Sweden	955	591	645	54	9.1	54.4
Switzerland	3,400	3,220	3,868	648	20.1	69.0
United Kingdom	2,683	2,443	2,791	351	14.4	69.3
European Free Trade Association	10,936	10,058	11,221	1,163	11.6	62.9
Australia	1,502	1,590	1,723	133	8.4	34.9
Canada	2,711	2,961	4,333	1,372	46.3	35.7
Finland	323	295	401	106	35.9	26.9
Greece	253	268	278	10	3.7	52.2
Iceland	31	32	52	20	62.5	5.8
Ireland	386	542	712	170	31.4	11.9
Japan	2,001	3,129	4,084	955	30.5	35.4
New Zealand	169	165	170	5	3.0	15.9
South Africa	1,233	1,557	1,346	-211	-13.6	78.4
Spain	958	915	1,056	141	15.4	78.6
Turkey	123	149	218	69	46.3	58.3
Yugoslavia	131	161	237	76	47.2	24.0
II. LESS DEVELOPED COUNTRIES 4/...	13,380	14,820	17,485	2,665	18.0	26.4
Latin America						
Central American Common Market 5/...	246	233	286	53	22.7	19.9
Argentina	726	722	707	-15	-2.0	43.4
Bolivia	40	46	51	5	10.8	33.3
Brazil	212	376	1,011	635	168.9	11.7
Chile	126	254	445	191	75.2	15.7
Colombia	117	164	280	116	70.7	9.3
Dominican Republic	35	36	34	-2	-5.5	8.8
Ecuador	61	50	64	14	28.0	34.4
Haiti	3	4	6	2	50.0	16.7
Jamaica	143	144	181	37	25.7	8.3
Mexico	598	673	678	5	.7	48.7
Paraguay	12	11	16	5	45.4	43.7
Peru	91	155	316	161	103.9	17.1
Uruguay	180	184	204	20	10.9	87.3
Venezuela	838	850	985	135	15.9	55.7

Continued

Table 1.--International gold and foreign exchange reserves of the free world 1/--Continued

Country and area	Reserves			Change in reserves, June 1969-June 1970	Ratio gold to reserves June 30, 1970 ^{2/}	Ratio reserves to imports ^{3/}
	June 30, 1968	June 30, 1969	June 30, 1970			
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent
Middle East						
Cyprus	140	164	184	20	12.2	11.9
Iran	310	295	261	-34	-11.5	60.9
Iraq	453	515	420	-95	-18.4	40.7
Israel	745	542	441	-101	-18.6	10.4
Jordan	250	263	253	-10	-3.8	14.6
Kuwait	180	178	204	26	14.6	48.0
Lebanon	320	324	350	26	8.0	82.8
Saudi Arabia	763	740	718	-22	-3.0	19.6
United Arab Republic ...	175	209	136	-73	-34.9	68.4
Asia						
Afghanistan	42	41	44	3	7.3	81.8
Burma	154	139	104	-35	-25.2	80.8
Ceylon	49	39	41	2	5.1	---
China, Republic	416	411	531	120	29.2	15.4
India	720	838	1,117	279	33.3	28.7
Korea	380	412	602	190	46.1	4.0
Malaysia	463	615	688	73	11.9	17.7
Pakistan	195	316	291	-25	-7.9	22.7
Philippines	187	138	196	58	42.0	25.5
Thailand	1,051	1,024	978	-46	-4.5	11.9
Vietnam	352	224	209	-15	-6.7	8.1
Africa						
Congo (Kinshasa)	125	176	222	46	26.1	41.9
Ethiopia	74	69	85	16	23.2	17.6
Ghana	111	100	82	-18	-18.0	22.0
Ivory Coast	74	82	90	8	9.7	5.6
Kenya	88	134	193	59	44.0	5.2
Libyan Arab Republic ...	696	924	1,473	549	59.4	6.1
Morocco	83	128	131	3	2.3	16.8
Nigeria	125	135	157	22	16.3	30.5
Senegal	20	18	20	2	11.1	15.0
Sudan	50	48	39	-9	-18.7	---
Tanzania	74	82	73	-9	-11.0	12.3
Togo	24	26	28	2	7.7	10.7
Tunisia	29	30	53	23	76.7	7.5

---Indicates figure is zero or less than half of the last digit shown.

n.a. = Not available

^{1/} Includes reserve position with the International Monetary Fund.

^{2/} Gold tranche position and lendings to the Fund (reserve position in the Fund) included with gold.

^{3/} Ratio of June 30, 1970, reserves to second quarter 1970 imports (at annual rates) except where denoted by letters which indicate imports for the following periods: (a) first quarter 1970, (b) fourth quarter 1969, (c) third quarter 1969, (d) second quarter 1969.

^{4/} Includes some countries not separately shown.

^{5/} Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Source: International Monetary Fund, International Financial Statistics, October 1970.

Table 2.--International trade of the free world, fiscal years 1969 and 1970

Country and area	Exports			Imports			Trade balance		
	(f.o.b.)		Change	(c.i.f.)		Change			
	1969	1970	: 1968 to : 1969 to	1969	1970	: 1968 to : 1969 to	1969	1970	
	Mill. U.S. dol.	Mill. U.S. dol.	Percent	Mill. U.S. dol.	Mill. U.S. dol.	Percent	Mill. U.S. dol.	Mill. U.S. dol.	
WORLD TOTAL	227,325	260,775	15.1	14.7	238,825	272,400	14.1	14.0	-11,500 -11,625
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES	182,140	212,227	16.4	16.5	192,680	223,568	15.4	16.0	-10,540 -11,340
United States	35,550	41,663	8.9	17.2	36,770	41,027	15.9	11.6	-1,220 636
Belgium-Luxembourg	8,981	10,893	20.5	21.3	9,042	10,634	19.7	17.6	-61 259
France	14,333	16,369	23.9	14.2	16,291	18,077	30.7	10.9	-1,958 -1,708
Germany, Federal Rep. of	26,847	31,897	18.7	18.8	22,447	27,725	21.4	23.5	4,400 4,172
Italy	11,259	12,165	21.9	8.0	11,378	13,711	14.5	20.5	-119 -1,546
Netherlands	9,098	10,893	18.4	19.7	10,036	12,187	15.4	21.4	-938 -1,294
European Economic Community	70,518	82,217	20.4	16.6	69,194	82,334	21.1	19.0	1,324 -117
Austria	2,159	2,672	14.9	23.7	2,621	3,164	10.4	20.7	-462 -492
Denmark	2,839	3,141	10.3	10.6	3,507	4,135	11.7	17.9	-668 -994
Norway	2,117	2,293	16.0	8.3	2,710	3,303	.9	21.8	-593 -1,010
Portugal	783	859	9.2	9.7	1,022	1,393	-1	36.3	-239 -534
Sweden	5,315	6,142	14.8	15.5	5,489	6,541	12.9	19.2	-174 -399
Switzerland	4,269	4,948	16.2	15.9	4,825	6,002	14.2	24.3	-556 -1,055
United Kingdom	16,270	18,713	15.2	15.0	19,546	20,801	8.1	6.4	-3,276 -2,088
European Free Trade Association	33,752	38,768	14.7	14.9	39,720	45,340	9.0	14.1	-5,968 -6,572
Australia	3,780	4,637	10.8	22.7	4,358	4,882	5.9	12.0	-579 -245
Canada	13,910	15,593	16.8	12.1	13,583	14,544	18.0	7.1	327 1,049
Finland	1,756	2,181	12.1	24.2	1,738	2,306	6.3	32.7	18 -125
Greece	485	627	.6	29.3	1,584	1,685	29.3	6.4	-1,099 -1,058
Iceland	87	133	1.2	52.9	128	134	-11.1	4.7	-41 -1
Ireland	838	959	6.1	14.4	1,300	1,476	18.3	13.5	-462 -517
Japan	14,428	17,611	26.6	22.1	13,637	17,087	10.6	25.3	791 524
New Zealand	1,106	1,218	14.3	10.1	952	1,127	15.9	18.4	154 91
South Africa	2,126	2,237	.4	5.2	2,996	3,610	6.1	20.5	-870 -1,373
Spain	1,760	2,145	19.6	21.9	3,774	4,634	12.3	22.8	-2,014 -2,489
Turkey	509	569	-2.8	11.8	770	855	2.4	11.0	-261 -286
Yugoslavia	1,339	1,630	10.2	21.7	1,999	2,333	16.9	16.7	-660 -703
Sum of--									
Australia to Yugoslavia	42,124	49,540	17.2	17.6	46,819	54,673	12.7	16.8	-4,695 -5,133
II. LESS DEVELOPED COUNTRIES	45,200	48,467	10.0	7.2	46,150	48,667	8.7	5.4	-950 -200

Source: International Monetary Fund, International Financial Statistics, October 1970.

1970, up 16.5 percent from 1969; sales by less developed countries at almost \$48.5 billion climbed 7.2 percent.

Prices of most primary products sold internationally by less developed countries increased in 1970. Average prices of coffee, copper, and hemp rose between 15 and 30 percent; tin, groundnuts, and groundnut oil climbed between 10 and 15 percent; and hides, rubber, and coconut oil were up better than 5 percent. Lesser increases were realized by burlap, copra, cotton, linseed oil, and tea. A softening of prices occurred for rice (roughly 17 percent) and cocoa (about 7 percent). Jute and sisal prices dropped by less than 5 percent.

Development Lending. The 1970 annual meeting of the Bank Group [the World Bank (IBRD) and its associate institutions, the International Development Association (IDA) and International Financial Corporation (IFC)] was held in Denmark in September. The Bank Group announced that new loans, credits, and investments during fiscal 1970 totaled \$2.3 billion, up 22 percent from a year earlier. It intends to provide twice as much financial assistance in 1969-73 as in the previous 5 years and is presently meeting this goal.

The IBRD cash and liquid security balances, at \$2.1 billion on June 30, 1970, were \$250 million higher than a year earlier. Although IBRD operating expenses have been rising, profits for fiscal 1970 rose 25 percent to \$213 million.

The IBRD and IDA jointly accounted for 32 loans and credits totaling \$413 million for agricultural projects in 1970, a 12 percent increase over 1969. The Bank Group's cumulative agricultural total (including fiscal 1970) was nearly \$2 billion. Lending by the Bank Group for infrastructure development, education, tourism, and technological improvement also increased during the year. Total IFC financing during 1970 climbed to \$112 million.

FINANCIAL CONDITIONS IN SELECTED FOREIGN MARKETS FOR U.S. FARM COMMODITIES . 1

by Amalia Vellianitis and Carolee Santmyer

Developed Nations

Developed nations increased international reserves 6.5 percent (\$4.0 billion) during fiscal 1970, to \$65.5 billion. Exports and imports by the developed nations were about 16 percent higher than last fiscal year. Export prices were up about 4 percent.

Real output, at seasonally adjusted annual rates, for member nations of the Organization for Economic Cooperation and Development (OECD) was up 1.75 percent in the first half of 1970. Prices were up about 5.75 percent. This price gain exceeded the 4.75 percent increase for 1969 and an average 2.5 percent increase for 1958-67.

Canada.--As of June 30, 1970, Canada's reserves were \$4.3 billion--fifth largest in the world. During fiscal year 1970, Canada's reserves increased nearly \$1.4 billion--46 percent. It was the largest 1970 dollar increase for

Table 3.--Changes in Holdings of Special Drawing Rights for Selected Countries, January 1 to June 30, 1970

	Value		Change	
	Received:	On hand:	Dollar	Percent
	Jan. 1, 1970	June 30, 1970		
ALL COUNTRIES, TOTAL <u>1/</u>	3,414.0	3,169.6	-244.4	-7.2
I. HIGHLY DEVELOPED COUNTRIES <u>1/</u>	2,561.0	2,598.7	37.7	1.5
United States	866.9	957.2	90.3	10.4
Belgium	70.9	93.9	23.0	32.4
France	165.5	165.4	-.1	0
Germany, Federal Rep. of	201.6	247.6	46.0	22.8
Italy	105.0	75.6	-29.4	-28.0
Netherlands	87.4	112.4	25.0	28.6
European Economic Community <u>2/</u>	630.4	694.9	64.5	10.2
Austria	29.4	38.2	8.8	29.9
Denmark	27.4	27.4	0	0
Norway	25.2	27.2	2.0	7.9
Sweden	37.8	37.8	0	0
United Kingdom	409.9	284.7	-125.2	-30.5
Australia	84.0	88.0	4.0	4.8
Canada	124.3	143.1	18.8	15.1
Finland	21.0	22.1	1.1	5.2
Greece	16.8	0	-16.8	-100.0
Iceland	2.5	2.5	0	0
Ireland	13.4	16.4	3.0	22.4
Japan	121.8	140.5	18.7	15.4
New Zealand	26.4	26.4	0	0
South Africa	33.6	39.1	5.5	16.4
Spain	42.0	42.0	0	0
Turkey	18.1	.1	-18.0	-99.4
Yugoslavia	25.2	6.1	-19.1	-75.8
II. LESS DEVELOPED COUNTRIES <u>1/</u>	853.1	571.0	-282.1	-33.1
<u>Latin America</u>				
Argentina	58.8	59.1	.3	.5
Bolivia	4.9	4.8	-.1	-2.0
Brazil	58.8	61.7	2.9	4.9
Chile	21.0	22.0	1.0	4.8
Colombia	21.0	.1	-20.9	-99.5
Dominican Republic	5.4	0	-5.4	-100.0
Ecuador	4.2	.3	-3.9	-92.9
Haiti	2.5	.9	-1.6	-64.0
Jamaica	6.4	6.4	0	0
Mexico	45.4	47.4	2.0	4.4

Continued--

Table 3.--Changes in Holdings of Special Drawing Rights for Selected Countries, January 1 to June 30, 1970--Continued

	Value		Change	
	Received:	On hand:	Dollar	:
	Jan. 1, 1970	June 30, 1970	value	Percent
<u>Latin America</u>				
Paraguay	2.5	.3	-2.2	-88.0
Peru	14.3	14.3	0	0
Uruguay	9.2	4.2	-5.0	-54.3
Venezuela	42.0	47.5	5.5	13.1
<u>Middle East</u>				
Cyprus	3.4	3.4	0	0
Iran	21.0	1.0	-20.0	-95.2
Israel	15.1	0	-15.1	-100.0
Jordan	2.7	2.7	0	0
United Arab Republic	25.2	.1	-25.1	-99.6
<u>Asia</u>				
Arghanistan	4.9	3.3	-1.6	-32.7
Burma	8.1	0	-8.1	-100.0
Ceylon	13.1	0	-13.1	-100.0
China, Republic	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
India	126.0	78.4	-47.6	-37.8
Korea	8.4	10.4	2.0	23.8
Malaysia	21.0	23.4	2.4	11.4
Pakistan	31.6	12.0	-19.6	-62.0
Philippines	18.5	0	-18.5	-100.0
Vietnam	6.5	.7	-5.8	-89.2
<u>Africa</u>				
Congo (Kinshasa)	15.1	15.6	.5	3.3
Ethiopia	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>
Ghana	11.6	11.6	0	0
Ivory Coast	3.2	3.2	0	0
Kenya	5.4	5.4	0	0
Morocco	15.1	.7	-14.4	
Nigeria	16.8	16.8	0	0
Senegal	4.2	1.2	-3.0	-71.4
Sudan	9.6	.1	-9.5	-99.0
Tanzania	5.4	5.4	0	0
Togo	1.9	1.9	0	0
Tunisia	5.9	0	-5.9	-100.0

1/ Includes countries not shown separately.

2/ Excludes Luxembourg.

3/ China is a participant but for technical reasons did not receive an allocation.

Source: International Monetary Fund.

any free country, and nearly 44 percent higher than the next largest increase, recorded by Japan. The large inflow of foreign exchange led to a May 31 announcement that the Government would stop buying US dollars to keep the Canadian dollar exchange rate at 92.5 US cents. The Canadians therefore have permitted their dollar to float at rates dictated by supply and demand in world exchange markets. Recently the Canadian dollar has been selling for about 98 US cents.

The increase in Canada's reserves was due to a bigger trade surplus and growing long-term capital inflows. Canada's trade surplus in the last half of fiscal 1969 was the largest recorded in many years. There were (1) heavy shipments of wheat, petroleum, wood pulp, and various metals and ores, (2) some recapture of exports lost during the strikes of 1969 and (3) a small decline in imports. The high level of merchandise exports reflected buoyant economic conditions in overseas markets, especially in the EEC countries and Japan.

Imports, meanwhile, increased only 4 percent between the last quarters of fiscal 1969 and 1970. They declined moderately on a seasonally adjusted basis in the last half of fiscal 1970. This in large part is the result of the Canadian Government's successful effort in fighting inflation with tighter monetary policy.

The surplus contributed by trade to the current account was partially offset by a growing deficit on services. In the third quarter of fiscal 1970, the services deficit was approximately 13 percent higher than a year ago, because of increased net payments on travel, business services, interest and dividends. The overall current account surplus was approximately \$200 million in the fourth quarter of fiscal 1970, an upswing of more than \$460 million from the fourth quarter deficit of 1969.

The scope of the current account surplus was augmented by continuing long-term capital inflows. Interest rates in Canada increased in the latter part of 1969, attracting U.S. dollars. For most of the fiscal year government bonds had a yield of around 8 percent, reflecting tight monetary policy being followed to halt inflation.

Although the consumer price index increased almost 20 percent over the last 5 years, prices increased only at a 3 percent annual rate in the last half of fiscal 1970.

Prices are of particular concern to Canada since exports of goods and services constitute nearly 22 percent of its gross national product. Canadian officials steer a narrow course. Too tight a monetary and fiscal policy would keep the economy operating below capacity. Too liberal a policy would cause inflation, dampening exports.

There is pressure for looser monetary policy to reduce unemployment. In September, unemployment was 6.9 percent, on a seasonally adjusted basis. At the same time, increased incomes resulting from wage settlements have made reductions in production costs and prices difficult.

France--On August 10, 1969, France devalued the franc to a par value equivalent of 5.55 francs to the U.S. dollar. France hoped to bring the value of its currency more in line with other currencies. This would discourage flight from the franc and make exports more competitive. Reserves had dropped from over \$5.5 billion at the end of fiscal 1968 to slightly over \$3.6 billion by the close of fiscal 1969.

To halt inflation and improve its external financial position, France instituted (1) quantitative restrictions on bank credit and (2) exchange and price controls. These measures were effective, and by the close of fiscal 1970 the country's overall financial position had improved.

International reserves climbed to over \$4.4 billion and the trade deficit fell to \$1.7 billion, \$0.2 billion less than a year earlier. Net official reserves reached close to \$3 billion by May 1970, up from roughly \$1 billion before devaluation. All short-term debt to foreign central banks was reported repaid by the last half of the year and government foreign exchange borrowings from French commercial banks had been reduced by two-thirds. France's main outstanding liability by the close of fiscal 1970 was reported to be a \$985 million IMF drawing.

The government's budget is reported to have been in equilibrium in fiscal 1970 and gross domestic product, in real terms, is estimated to have grown by 6 percent with relatively full employment. Retail prices climbed at a slower rate during fiscal 1970, than the year before. Tight credit restrictions and year-end tax payments kept consumer demand at a satisfactory level, even though hourly wage rates increased faster in the last half of fiscal 1970 than in the like 1969 period. Although industrial production is reported to have begun leveling off, the June 1970 industrial index was 6.7 percent above that of June 1969.

Germany--This country's international reserves were \$8.8 billion at the end of fiscal 1970, more than 10 percent of the reserves held by all free world nations. These reserves, however, equaled only 32 percent of the value of German imports in fiscal 1970.

Reserves declined \$1.3 billion (13.2 percent) from fiscal 1969 when they equaled 13 percent of the free world reserves and 45 percent of annual imports.

Germany's reserves in the summer of 1969 were quite high as short-term capital and speculative funds entered in expectation of a revaluation.

With exports equal to about 22 percent of Germany's gross national product, and imports equal to about 20 percent, changes in the domestic economy strongly affected Germany's external financial position. During first-half 1970 rapid expansion of final domestic demand continued. Relatively buoyant business expectations and rising wages led to sharp increases in business fixed investment and strong growth in private consumption. Capacity utilization was extremely high, there were long order backlogs, an acute shortage of labor, and cost and prices were rising fast. Under these conditions, typical wage settlements in 1970 amounted to some 11-12 percent above last year's level.

The rate of growth declined for exports and increased for imports. First-half 1970 exports grew 15 percent, down from 25 percent in second-half 1969 (both figures seasonally adjusted), and the growth rate for all of 1969 was only 17 percent. The import growth rate increased from 18.4 percent in second-half 1969 to 29 percent in first-half 1970, and the trade balance declined from \$2.86 billion to \$2.3 billion.

Germany's typical service-sector deficit grew from first to second quarter 1970 probably due to more foreign travel by Germans as incomes increased and more money sent home by foreign workers in Germany as their incomes increased. With a smaller trade surplus and a large services deficit, the balance on current account declined from \$1.1 billion in the last half of 1969 to \$350 million in the first half of 1970.

A large capital outflow in the fourth quarter of 1969 turned to a small net inflow in the first quarter of 1970. This occurred because of strong pressure on bank liquidity and interest rate shifts which brought German short-term rates above those in the Euro-dollar market.

Netherlands--On June 30, 1970, international reserves of the Netherlands amounted to slightly under \$2.7 billion, up \$317 million from the previous year's level. About \$112 million of the increase reflects growth in SDR holdings. Larger investment by foreigners in response to high interest rates also helped the upturn.

During fiscal 1970, exports climbed about 20 percent to \$10.9 billion. But imports increased over 21 percent to \$12.2 billion, increasing the trade deficit to nearly \$1.3 billion, \$356 million above fiscal 1969. Western European countries, especially Germany, are the major export markets. In fiscal 1970, the United States purchased over \$500 million worth of Dutch products and sold the Netherlands \$1.6 billion worth of goods.

Export growth has led to an increase in industrial production, especially in such areas as metal working, chemicals, shipbuilding, and food and allied goods. Since many imports become inputs in export items, export growth has also fostered larger imports.

The Netherlands exports roughly three-fourths of its agricultural output. Canned ham exports are one of the largest sources of foreign exchange. Sales of frozen chickens, especially to Germany and the Soviet Union, are expanding. In general, however, export growth is being hampered by production capacity and internal cost-push inflation.

Spain--International reserves increased \$141 million in the past fiscal year, totaling \$1.1 billion on June 30, 1970. Reserves had declined 4.5 percent the year before. Sharply increasing demand during fiscal 1970, particularly for consumer goods, pushed the trade deficit to \$2.5 billion, \$475 million higher than a year earlier.

First-half 1970 agricultural exports made the biggest percentage gain in many years. They totaled \$451 million and were 41.6 percent above exports in the first half of 1969. Nonagricultural exports rose 18.6 percent to

\$176 million, mostly because of larger exports of metals and metal products, machinery, chemicals and plastics. Imports grew mainly in the non-agricultural sector, which increased one fourth to \$2.1 billion. Agricultural imports rose by 10.6 percent over the same period to \$366 million. The high rate of growth of Spanish imports probably continued throughout 1970.

The Organization for Economic Cooperation and Development (OECD) estimated that Spanish GNP rose by about 8 percent in 1969, compared with 4.5 percent in 1968. Manufacturing has been expanding very rapidly. Agricultural output grew 3.5 percent in 1969 down from 6 percent in 1968.

An agreement between Spain and the EEC on trade and related matters, effective October 1, will provide a 6-year transitional period for mutual tariff reductions. This should improve Spain's external position in the future. During an open-ended "second stage" Spain and the EEC will seek closer relations in the form of a customs union.

United Kingdom--International reserves of the United Kingdom rose more than 14 percent to almost \$2.8 billion during fiscal 1970. Gold holdings climbed \$175 million to over \$1.6 billion. In large part, reserves on June 30, 1970 were bolstered by the \$285 million of SDR's and a surplus on current account. The trade deficit dropped a third to slightly under \$2.1 billion. Exports increased 15 percent to \$18.7 billion, outpacing a 6.4 percent import rise to \$20.8 billion. In addition, capital inflows increased sizably in response to higher interest rates and a return of confidence in sterling.

As a result of this confidence, on March 5, 1970, the Bank of England reduced the bank rates from 8 to 7½ percent. The lower rate is in line with a policy of continued economic restraints and more flexible use of monetary instruments.

The balance of payments surplus deteriorated somewhat by the last quarter of fiscal 1970. The current account surplus dropped from \$366 million in the third quarter to \$127 million in the last quarter of fiscal 1970. The trade balance went from a \$62 million surplus to a \$206 million deficit. The surplus on invisibles increased from \$29 million to \$333 million.

The dock disputes in the fourth quarter of fiscal 1970 were partly responsible for the trade deficit in that quarter. Imports during this quarter were enlarged by previously delayed shipments from Canada plus purchase of two "jumbo-jet" aircraft.

The United Kingdom's improved external financial position enabled it to repay substantial amounts of short-and medium-term debt during fiscal 1970. As of June 30, 1970, short-and medium-term debt outstanding was roughly \$3.5 billion. About 68 percent of this was owed to the International Monetary Fund.

Japan's international reserves increased by \$955 million last fiscal year to \$4,084 million. Although imports rose faster than exports (25.3 percent versus 22.1 percent), Japan still recorded a favorable trade balance of \$525 million. Exports totaled \$17,611 million, while imports were \$17,087 million.

Japan's economic growth rate has averaged 10 percent since World War II, one of the highest rates in the world. In fiscal 1970, U.S. agricultural exports to Japan totaled a record-breaking \$1.1 billion. There are indications that Japan will seek more balanced growth in the future between agriculture and industry, but this will not dampen U.S. farm exports. Japan will produce more livestock and import more feed grains.

To prevent inflation Japan embarked on a tight money policy last September. The discount rate was raised from 5.84 percent to 6.25 percent to moderate real growth of the gross national product to 10 or 11 percent for fiscal 1970 (GNP was up 13 percent in fiscal 1969). Officials later feared that the tight credit policy might result in a sharper decline in economic activity than had been anticipated. Therefore, in October 1970 the discount rate was reduced to 6 percent. Japan's GNP grew at a real rate of 14 percent in January-March 1970, and then declined to 11.8 percent in the next three months. Effective March 1, the government also raised the approved allowance for tourism expenditures abroad from \$700 to \$1,000 a person per trip.

The most recent annual OECD survey of the Japanese economy cited private investment and exports as the most powerful expansionary forces in the economy. Therefore, in line with moderating Japan's growth, authorities also made some efforts to reduce exports and encourage imports. The Bank of Japan increased the range of preferential interest rates for short-term export credit by 1 percentage point, to 5-5.5 percent, effective May 15.

The Bank began June 1 to supply yen funds to Japanese foreign exchange banks for import financing purposes. These funds are made available at official discount and loan rates, which are lower than prevailing market rates, and are supplied outside rediscount and loan quotas that have been established. The amount supplied may equal up to 15 percent of the total import credits now accorded in foreign currency by foreign banks. The important result of this measure could be the resumption of "yen-shift", at least partially switching import financing from foreign to domestic banks. This shift, possibly amounting to about \$600 million through the end of 1970, will reduce Japan's surplus balance of payments on an official settlements basis, and dampen inflation by increasing the supply of goods in Japan.

Italy--In fiscal year 1970, Italy's international reserves declined by \$469 million (9 percent) to slightly under \$4.7 billion, mainly from a worsening of the current account. The trade deficit rose (especially in the latter half of fiscal 1970) as the country began to replenish stocks of items depleted by extensive local strikes early in the year. Since the industrial sector was disrupted most by the strikes, the drop in production limited products for domestic consumption as well as for export.

Exports for fiscal 1970 climbed 8 percent to almost \$12.2 billion but imports rose 20.5 percent to \$13.7 billion. Rising living standards have contributed to mounting imports in recent years. For fiscal year 1970 Italy's balance of payments was in deficit by over \$1 billion.

For January-June 1, 1970, the deficit was \$576 million compared to \$898 million a year earlier. However, the current account worsened to \$553-million versus a \$628 million surplus a year earlier because the trade deficit rose to

over \$1.1 billion from \$394 million a year earlier. Also net receipts on invisibles dropped to \$589 million from over \$1 billion in the last half of fiscal 1969. The decrease in net invisibles receipts was produced by lower net receipts from both travel and investment in addition to a \$155 million EEC farm program payment.

The capital account in the latter half of fiscal year 1970 improved over the corresponding 1969 period. The net outflow in second-half fiscal 1970 was minor compared with the \$1.5 billion outflow a year earlier. The major reason for improvement was nearly \$1 billion in capital inflow related to external borrowing by public institutions and enterprises. Such borrowing equaled only \$100 million in the like 1969 period. Outflows of funds accounted for by illegally exported banknotes also fell by close to \$400 million to roughly \$634 million as the result of government measures.

Less Developed Countries

Reserves of less developed countries (LDC's) increased by close to \$2.7 billion between the close of fiscal years 1969 and 1970. Approximately 55 percent of this improvement occurred in three countries: Brazil (\$635 million), the Libyan Arab Republic (\$549 million) and India (\$279 million). Brazil also had the highest percentage increase in reserves, 169 percent of its previous year's reserves. Israel's reserve losses of \$101 million were the highest for free world countries. The UAR (Egypt) had the largest percentage loss, 35 percent of its previous year's reserves or \$73 million.

Economic conditions of several less developed countries are reviewed below. They include leading participants in the U.S. food-for-peace program (P.L. 480) and large commercial importers (or potential importers) of U.S. agricultural products.

Brazil established three goals for 1970: increasing international reserves, boosting GNP 7 to 9 percent, and limiting inflation to around 20 percent. All three goals were met or approximated for the first six months.

International reserves increased nearly 170 percent in fiscal 1970. Exports in first-half 1970 increased 27.7 percent over first-half 1969 (\$1,240 million, total). In the first-half of 1970 GNP grew at an estimated rate of 7.1 percent and inflation slowed to 8.9 percent compared with 10.8 percent in first-half 1969. Manufactured product exports rose 86 percent to \$206 million; iron ore was up 40 percent to \$90 million; chilled and frozen beef nearly doubled to \$42 million; and green coffee improved 29 percent to \$458 million.

The increase in exports has been due largely to the 6 percent expansion of agricultural output in 1969, highlighted by a 30 percent increase in coffee production. Imports increased by a moderate 6.6 percent and are expected to be up to around 9 percent for the year. The substantial build-up in Brazil's reserves in the last 18 months is now enabling the government to proceed with liberalizing imports. Regulations effective September 1 simplified and to an extent liberalized administrative procedures governing imports.

All present indications are that Brazil will continue to grow at a healthy 6-9 percent per annum. Furthermore, it is estimated that there is a 1:1 ratio between import demand and GNP growth. Thus, if Brazil achieves its goal of economic growth imports should double in the next decade from \$2 billion to \$4 billion. The United States is Brazil's biggest supplier. But European and Japanese firms will become increasingly competitive, partly by offering better credit terms, to capture Brazil's growing import market.

Republic of China's exports increased substantially, helping international reserves increase by \$120 million (30 percent) in fiscal 1970 to \$531 million. Available figures indicate that exports rose from \$842 million in 1968 to \$1.1 billion in 1969, an increase of 32 percent. Textile exports, a fourth of total exports, increased 45 percent to \$266 million in 1969. Exports of electronics and electrical items amounted to \$120 million, a gain of 51 percent.

At the same time, unofficial estimates indicate that China's external debt service ratio has declined to somewhere between 3 and 5 percent at present, certainly within manageable limits.

Gaining 17.4 percent, imports rose to \$1,205 million in 1969 from \$1,026 million the year before. China's persistent trade deficit is being reduced, however, and figures for early 1970 show a surplus of exports over imports.

A larger volume of private capital inflows is indicated for 1970. In 1969, \$110 million in new foreign investment projects was approved. More than one-third of these proposed projects originated with U.S. firms or their Canadian subsidiaries.

India's international reserves increased from \$838 million in June 1969 to \$1.78 billion by the end of May 1970, largely because of an 18 percent reduction in imports. Agricultural imports from the United States, both commercial and concessional, declined 28 percent from 1968 to 1969, while imports of all items from the United States declined by the same proportion. India's need for U.S. food has declined steadily since 1967, partly reflecting our aid program and policy of encouraging self-sufficiency in food production. The Intensive Agricultural Districts Program has improved all aspects of India's agriculture. The 1969/70 crop will reach a hundred million tons of foodgrains, an amazing increase of 33 percent since the 1965-67 drought. India plans to reach the 129-million ton mark by 1973-74 at which time it would be self-sufficient in foodgrains.

India has budgeted a 20 percent increase of some \$532 million for public investment in 1970-71. This undoubtedly will have the effect of increasing import requirements but the expected rate of increase will be less than in previous years when public investment was also increased substantially. This expected reduction in the rate of increase is due to some headway in import substitution. For example, half of the plant and machinery required for new fertilizer plants is now supplied by domestic manufacturers.

Total industrial production is also picking up, particularly for consumer goods. The production of radios, for example, increased by 60 percent in 1968 and 37 percent in 1969. Capital goods plants increased production at a somewhat slower rate. Machinery output in the first half of 1969 went up by only

6 percent compared with an average annual growth of 43 percent between 1960 and 1965. This is primarily because of the lagged effect of the decline in public and private investments since 1966.

Expectations, however, are favorable. As demand and production continue to grow, entrepreneurs will be encouraged to initiate plans for expansion and new industry. Favorable signs include the large number of industrial licenses sought in 1969, and the rising trend of applications made for foreign exchange financing to agencies like the Industrial Credit and Investment Corporation.

While cutting back imports, India seeks to enlarge its capacity for exports. At present, 30 percent of India's export earnings are pre-empted for debt repayments. The country thus depends to a substantial extent on new aid accruals to finance even the diminished flow of imports. In the first half of 1969/70, the net aid flow was about \$370 million, of which \$245 million was used to finance non-food imports. Aid inflows are decreasing, however: India used over \$1.4 billion net aid in both 1966-67 and 1967-68.

India's traditional exports of jute goods, tea, and cotton textiles have not done well in the past year. It must, therefore, look to new types of exports for growth. Tea faces increasing competition from newer plantations in East Africa and a continuing excess world supply. The value of tea exports decreased 28 percent in 1969. While jute exports increased by 14 percent in 1969, they face competition from Pakistan and from synthetic fabrics. At best, volume and earnings of jute exports will probably stabilize. A rising domestic demand and a static domestic cotton supply are limiting cotton textiles available for export.

Some headway is being made in exporting goods such as railway wagons, power plant boilers, machine tools, engineering goods and iron ore. Value of these non-traditional exports rose to over \$132 million in Indian fiscal year 1969/70.

Korea's foreign reserves increased by a hefty 46.1 percent in the past fiscal year. Exports increased by 37 percent (\$721.1 million), and imports increased by approximately 19 percent (\$1,911.4 million). Sizable deficits incurred for goods and services were financed to a large degree by inflows from foreign commercial and government loans. They were also financed by invisible trade, including military procurement for construction, services and merchandise, army and technicians' remittances, and insurance. Over a third of invisible trade items recently have represented Korean earnings from Vietnam. Estimates for these items range from \$125 million to about \$180 million in the past few years.

A large portion of the growth in Korea's industrial sector has been financed with foreign commercial capital. Foreign loan inflows in 1969 were estimated near \$700 million, compared to less than \$500 million in the previous year. Approved new debt is estimated to have been about \$850 million in 1969.

The encouragement of exports, foreign loans, grants and aid has been a part of Korea's expansionary policy for development. However, it has also caused some inflationary pressure on the economy. An index of wholesale import

goods indicated an 8 percent increase in fiscal 1970 prices and a 12.3 percent increase in consumer prices in the same interval.

Real growth in GNP during 1969 was a record 15.5 percent. Projections for all of 1970 indicate lower GNP growth (11 percent), but a continued large increase in exports.

In spite of these encouraging indications, Korea is concerned over its balance of payments and an increasing external debt service ratio. The debt service ratio increased to 7.5 percent in 1968 (the latest year for which figures were available) from 2.7 percent in 1965. In addition, domestic wages and prices continued to rise. The amount of money in circulation increased substantially in late fall 1969, totaling 46 percent over 1968 by the end of the year. In November, the government adopted a series of measures designed to correct these imbalances in the economy. The won was devalued by 4.5 percent. Tighter control was placed over foreign loan inducements, and some restrictions were placed on domestic bank credit. These measures may relieve some of the pressure on the balance of payments without contributing to inflation.

The Libyan Arab Republic's foreign exchange reserves increased from \$924 million to \$1,473 million in the past fiscal year, or by 59.4 percent. Crude petroleum exports continue to form 99 percent of all Libyan exports. Production for all of 1969 was 91 percent higher in 1968. Crude oil production was 3.5 million barrels a day by mid-1970, 18 percent over the comparable 1969 period. Libya now follows only Iran in production of crude petroleum among Middle East-North African countries. Seventy percent of the free world's proven crude oil reserves of 480 billion barrels are in the Middle East, and 35 billion are in Libya.

Although only 3 percent of the oil consumed in the United States is from the Middle East, profits of American owned oil companies yield sizable dollar returns from this area. Thus Libya has a large balance of payments deficit with the United States.

As was discussed in FGER-8 (May 1970), Libya is increasing its restrictions on the operations of foreign-owned capital. Since the recent September crisis in the Middle East, Libya has renewed efforts to obtain a larger portion of oil revenues. The Libyan government has insisted that one of its largest foreign-owned producers raise the posted price of oil by a reported 40 cents a barrel, though customers will not pay more for the oil. The artificially high price is used for computing taxes and royalties which the company must pay. The Libyan government has announced that all companies operating in Libya will have to accept similar terms.

Mexico's foreign reserves increased slightly in fiscal 1970, from \$673 to \$678 million. By August 31, 1970, however, the Bank of Mexico reported that reserves had increased to \$762 million. This increase of 12 percent in 2 months indicates the volatility of Mexico's foreign reserves. Exports in fiscal 1970 grew an estimated 12 percent to about \$1.4 billion and imports increased 8 percent to about \$2.2 billion.

Exports in the manufacturing sector grew at about 37 percent, double the rate of all exports. It is the fastest growing export sector and is steadily

increasing its share of total exports. Recent figures indicate that the share is now over 30 percent.

Exports of cotton, Mexico's largest commodity export, declined in the second half of the fiscal year partly because of adverse weather. Prolonged drought in major growing areas was followed by heavy rains and flooding. The drop of almost 30 percent in cotton output was also a product of reduced acreage reflecting lower export prices as well as insects and other production problems.

Weather affected other big export crops such as corn and beans. Corn production at 6.5 million tons was 2 tons under the 1968-69 crop. Although Mexico was able to fulfill its export commitments, it did this at the expense of importing corn for internal consumption in the last quarter of 1969 and well into 1970. However, production of tomatoes, strawberries and some other crops increased. Exports to the United States of tomatoes increased 32 percent in quantity between fiscal 1969 and fiscal 1970. Fresh strawberries increased by 20 percent and frozen strawberries by 6 percent. Nearly all exports of these commodities go to the United States.

Imports grew at a slower pace than exports because of a reduction in demand by the private sector. Mexico's imports of goods have run as much as 56 percent higher than exports in recent years.

Tourism and border transactions continue to be a large positive factor in the current account, which nevertheless shows a deficit. In the past fiscal year, receipts from tourism were about \$500 million. They rose at an estimated average rate of 13 percent a year since 1960. Tourism remains the most promising field for rapidly increasing foreign exchange earnings. The Mexican government has recognized this and has recently established a special trust fund in the Bank of Mexico to develop a program for starting new resort areas in Yucatan and on the Pacific Coast.

Within the capital account, new direct foreign investment continues to grow. Net new foreign borrowing in 1969 alone reached \$347 million. Thus Mexico's current account deficit is more than offset by gains in capital movements.

Service payments on the external public debt equal about 25 percent of goods and services exports. The government hopes to improve this situation by encouraging private foreign investment, particularly in tourist facilities. This would lessen the dependence on loans for development.

Pakistan's international reserves fell by \$25 million in the year ending June 30, 1970. The decrease was mainly due to the repayment of previous drawings from the IMF. Exports in the first quarter of 1970 were down \$39 million from the comparable 1969 period, and there are indications this trend will continue for the rest of the year. Consumer prices rose 6 percent from the previous fiscal year, based on 1963 prices.

Pakistan continues to receive loans from the International Development Association, the International Bank for Reconstruction and Development and individual nations. In the past few months it has received loans to finance

extension of the telecommunications system, completion of the Chaudpur flood protection and irrigation project in East Pakistan, and study of flood control programs and water utilization in the Eastern Province. In addition, Japan is providing assistance to Pakistan to finance the purchase of capital goods. Communist China has undertaken to assist in the development of a foundry and forge, sugar mill, fertilizer factory, and refractory plant.

South Vietnam continued to lose foreign exchange reserves for the third fiscal year in a row. This year's losses were \$15 million, a decrease of 6.7 percent, which brought reserves down to \$209 million. The previous fiscal-year losses were 36.4 percent (1969) and 5.6 percent (1968).

Early in October 1970, the Vietnamese government devalued the piastre by 133 percent (from 118 to 275 piastres per \$1). This in effect raised the price of imports and lowered the price of exports. The economy is highly dependent on imports, and approximately two-thirds of all imports are food and agricultural products. Furthermore, agricultural production has declined severely in recent years. Thus, the effects of devaluation have been immediate and widespread. Knowing that the prices of imported commodities would rise as a result of the devaluation, many domestic suppliers increased their prices immediately. In a matter of a few days in Saigon, the price of pork rose by 12 percent, and some vegetables increased by as much as 15 or 20 percent.

Inflation has been a chronic problem. In the past fiscal year prices of locally consumed and export goods rose by 25 percent, and consumer prices were 39 percent higher. In the near future, the government plans to increase civil service salaries. This will significantly add to inflationary pressures since employees in the public sector and their families make up nearly a third of South Vietnam's 17 million population.

The purpose of devaluation and other accompanying economic measures is to fight the balance of payments deficit and inflation. However, unless the government can curb further price rises resulting from devaluation, inflation may be aggravated further.

A main source of Vietnam's inflation in recent years has been the large central government deficit. This has primarily been financed by the banking system, especially the central bank. Because of the war, it is highly unlikely that this inflationary pressure could have been prevented altogether. This year, 62 percent of the national budget is pegged for defense.

U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS by O. Halbert Goolsby

Agriculture's net contribution to the U.S. balance of payments in 1970's second quarter, was only \$9 million (table 4). However, this is some improvement over the \$36 million first-quarter deficit and over the \$72 million deficit for second-quarter 1969. A \$90 million contribution made by non-commercial agricultural exports offset a deficit of \$81 million on commercial agricultural trade (table 5) to yield the \$9 million surplus.

Table 4.--Agriculture's contribution to the U.S. balance of payments, by quarters, 1968-70

Item	1968				1969				1970			
	II	III	IV		I	II	III	IV	I	II	III	IV
	1,073	1,243	1,425	764	1,188	1,236	1,645	1,311	1,355			
Commercial agricultural exports												
Contribution to balance of payments by non- commercial agricultural exports	77	69	86	81	96	83	108	91	90			
P.L. 480, Total	63	58	71	59	72	69	104	79	69			
Foreign currencies used by U.S. agencies (Title I)	49	48	49	42	51	59	64	58	48			
Interest and principal repayment on dollar credit sales (Title I)	10	6	16	14	15	7	34	18	18			
Interest and principal repayment in dollars of loans made in foreign currencies (Title I)	4	4	6	3	6	3	6	1	3			
Mutual Security (AID) foreign currencies used by U.S. agencies	---	---	---	---	---	---	---	---	---			
Export-Import Bank principal and interest dollar repayments	14	11	15	22	24	14	4	14	21			
Gross contribution	1,150	1,312	1,511	845	1,284	1,319	1,753	1,402	1,445			
Agricultural imports	-1,261	-1,341	-1,235	-999	-1,356	-1,241	-1,362	-1,442	-1,436			
Net contribution	-111	-29	276	-154	-72	78	391	-36	9			
---Zero or less than \$500,000.												

Source: Same as in table 5.

Table 5.--U.S. merchandise trade, balance-of-payments basis, by quarters, 1968-70

Period and commodity group	Exports (f.o.b.)			Imports (f.o.b.)	Trade balance	
	Total	Noncommercial <u>1/</u>	Commercial		Total	Commercial
----- Million U.S. dollars -----						
Total:						
1968 II	8,640	897	7,743	8,201	439	-458
III	8,290	754	7,536	8,462	-172	-926
IV	8,716	738	7,978	8,619	97	-641
1969 I	7,438	635	6,803	7,333	105	-530
II	9,872	1,073	8,799	9,739	133	-940
III	8,965	657	8,308	9,169	-204	-861
IV	10,198	732	9,466	9,594	604	-128
1970 I	10,129	822	9,307	9,458	671	-151
II	11,027	882	10,145	10,015	1,012	130
Agricultural:						
1968 II	1,481	408	1,073	1,261	220	-188
III	1,426	183	1,243	1,341	85	-98
IV	1,669	244	1,425	1,235	434	190
1969 I	952	188	764	999	-47	-235
II	1,690	502	1,188	1,356	334	-168
III	1,416	180	1,236	1,241	175	-5
IV	1,900	255	1,645	1,362	538	283
1970 I	1,637	326	1,311	1,442	195	-131
II	1,713	358	1,355	1,436	277	-81
Nonagricultural:						
1968 II	7,159	489	6,670	6,940	219	-270
III	6,864	571	6,293	7,121	-257	-828
IV	7,047	494	6,555	7,384	-337	-831
1969 I	6,486	447	6,039	6,334	152	-295
II	8,182	571	7,611	8,383	-201	-772
III	7,549	477	7,072	7,928	-379	-856
IV	8,298	477	7,821	8,232	66	-411
1970 I	8,492	496	7,996	8,016	476	-20
II	9,314	524	8,790	8,579	735	211

1/ Same as footnote 1, table 1 except the source for noncommercial agricultural exports is table 4.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Table 6. --Noncommercial U.S. agricultural exports, quarterly, 1968-70 1/

Item	1968				1969				1970	
	II	III	IV	I	II	III	IV	I	II	
	----- Million U.S. dollars -----									
Total	408	183	244	188	502	180	255	326	358	
P.L. 480, Total	383	165	229	180	459	168	242	296	334	
Sales for local currencies (Title I) <u>2/</u>	170	61	66	36	180	59	58	101	85	
Long-term dollar-credit sales (Title I) <u>2/</u> <u>3/</u>	131	50	101	105	168	61	128	127	164	
Grants (Title II)	82	54	62	39	111	48	56	68	85	
Mutual Security (AID) disposals	2	3	3	3	3e	3e	3e	3e	3e	
Export-Import Bank, financed from own resources	23	15	12	5	40	9	10	27	21	

1/ 2/ 3/ Same as in table 3.

e--Estimated

Source: Same as in table 3.

The contribution of noncommercial farm exports in the second quarter most likely resulted from exports that actually took place in past years. Under P.L. 480, commodities are sold for local currencies. In some countries these currencies may not be used by the U.S. Government for many years and in some cases never used. It would be misleading to count the full value of exports that take place under this arrangement as contributing to the U.S. balance of payments. The contribution can be counted only when currencies are used. In the same way, contributions from long term dollar-credit sales are not counted until payment is made.

The contribution by noncommercial exports in the first half of 1970 was \$181 million, \$10 million below the last half of 1969 but \$4 million above the first half of 1969. Most of the contribution was derived from the P.L. 480 program and most of this by the use of local currencies by U.S. agencies overseas.

Local currency needs by U.S. agencies in a large number of countries exceed the supply available. Many P.L. 480 agreements with these foreign countries now reserve a large portion of the currencies collected for U.S. agency use. Where a high portion is reserved for U.S. use, P.L. 480 transactions becomes more like a commercial sale. This limits the size of the portion in some countries.

The Export-Import Bank also provided credit for the sale of agricultural commodities overseas. However, farm goods are a small portion of the items covered by the Bank's credit program. The most important trade covered by loans are cotton exports to Japan. Credit has also been extended to Ecuador for the purchase of livestock from the United States.

Commercial agricultural trade for the first half of 1970 was in deficit \$212 million. This was a sharp decline from the surplus of \$278 million in the last half of 1969 but a sharp upturn from the \$403 million deficit in the first half of 1969. However, dock strikes distorted trade in the first half of 1969 (as well as the fourth quarter of 1968). Commercial exports increased 3.4 percent or \$44 million in the second quarter of 1970 over the first quarter. Imports, all of which are commercial, dropped very slightly so that most of the movement in the commercial trade balance reflects greater exports.

Noncommercial agricultural exports also increased between the first and second quarter of this year--9.8 percent or \$32 million (table 6). The second quarter of each year, however, is usually the highest. Since the second quarter of a calendar year is the last in the fiscal year importing nations hasten to complete their purchases under P.L. 480 agreements that have a supply period based on a fiscal year.

Dollar credit sales are slowly becoming a larger share of the total P.L. 480 program. A 1966 amendment to P.L. 480 required that by the end of 1971 all sales under P.L. 480 be dollar credits. Although large fluctuations from one quarter to the next diminish the significance of quarterly changes, credit sales have been larger than local currency sales in 6 of the last 9 quarters.

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